



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 5/3/2001

GAIN Report #HK1025

Hong Kong

Tobacco and Products

Annual

2001

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Report Highlights:

In 2000, Hong Kong imported an estimated 24.2 billion cigarettes, including an estimated 2 billion sticks that were smuggled. The majority of cigarettes imported were re-exported to China and South East Asian countries. Cigarette production in 2000 increased by a whopping 49%, reaching a total of 9.859 billion sticks, following the expansion in production capacity at Nanyang Brothers, which moved to a new plant during 1999.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
HongKong [HK1], HK

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Section I. Situation and Outlook

In 2000, Hong Kong imported an estimated 24.2 billion cigarettes, including an estimated 2 billion sticks that were smuggled. The majority of cigarettes imported were re-exported to China and South East Asian countries. Official statistics for cigarette exports tend to fluctuate between different years as smugglers always change their declared export destinations to make interceptions more difficult.

Cigarette production in 2000 increased by a whopping 49%, reaching a total of 9.859 billion sticks, following the expansion in production capacity at Nanyang Brothers, which moved to a new plant during 1999. Even during its first full year at the new plant, Nanyang Brothers did not reach its full production capacity last year. There is a good possibility that local production will expand this year, depending on import demand in major markets like Vietnam. Locally produced cigarettes are largely English Virginia type.

Hong Kong smokers prefer American-style blended cigarettes, most of which are imported. Marlboro continues to be the most popular brand. As Hong Kong people are becoming more health conscious, cigarettes sold in Hong Kong are steadily reducing their tar and nicotine yields. Hong Kong legislation prohibits cigarettes sold in Hong Kong to exceed 17 mg per stick. Total cigarette consumption in Hong Kong is not expected to change drastically in the future. Two diverging factors are at play. On one hand, most immigrants coming into Hong Kong from Mainland China are smokers. On the other hand, the Hong Kong government is discouraging smoking through education and banning advertisements. According to a survey in 1998, a smoker consumed 16 cigarettes daily on average. In 2000, total cigarette consumption amounted to 5.9 billion sticks.

The duty on cigarettes was raised 5% effective March 2001. The current duty stands at HK\$804 per 1000 sticks.

Section II. Statistical Tables

PS&D Table

PSD Table						
Country	Hong Kong					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1999	Preliminary	2000	Forecast	2001
	Old	New	Old	New	Old	New
Market Year Begin		01/1999		01/2000		01/2001
Filter Production	6637	6637	6700	9859	0	10850
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	6637	6637	6700	9859	0	10850
Imports	24205	24205	25415	24200	0	24500
TOTAL SUPPLY	30842	30842	32115	34059	0	35350
Exports	25253	25253	26485	28159	0	29250
Domestic Consumption	5589	5589	5630	5900	0	6100
TOTAL DISTRIBUTION	30842	30842	32115	34059	0	35350

Note : Figures in the trade matrices and PS&D table do not match because the latter include estimated figure of smuggled cigarettes while figures in the trade matrices are official Hong Kong Census and Statistics Department data and do not include estimates of smuggled cigarettes.

Trade Matrices

Import Trade Matrix			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	Million pieces
Imports for:	1999		2000
U.S.	4704	U.S.	3566
Others		Others	
UK	6806	UK	6178
Belgium	2804	Belgium	4230
China	2360	China	3156
Malaysia	1935	Malaysia	2402
Germany	540	Germany	623
Japan	444	Japan	542
Singapore	1291	Singapore	536
Total for Others	16180		17667
Others not Listed	2080		1060
Grand Total	22964		22293

Export Trade Matrix			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan - Dec	Units:	million pieces
Exports for:	1999		2000
U.S.	104	U.S.	12
Others		Others	
Vietnam	6996	Vietnam	7570
China	5401	China	6488
Philippines	4857	Philippines	5120
Turkey	0	Turkey	1438
Malaysia	914	Malaysia	706
Taiwan	1665	Taiwan	665
Macau	643	Macau	639
Total for Others	20476		22626
Others not Listed	4673		2310
Grand Total	25253		24948

Price Table

Prices Table			
Country	Hong Kong		
Commodity	Tobacco, Mfg., Cigarettes		
Prices in	US\$	per uom	thousand pieces
Year	1999	2000	% Change
Jan	27	24	-11.11%
Feb	22	21	-4.55%
Mar	21	22	4.76%
Apr	23	23	0.00%
May	20	23	15.00%
Jun	21	24	14.29%
Jul	24	21	-12.50%
Aug	23	22	-4.35%
Sep	21	21	0.00%
Oct	21	22	4.76%
Nov	20	24	20.00%
Dec	21	23	9.52%
Exchange Rate	7.75	Local currency/US \$	

Table 1 Retail and Wholesale Price Table of Cigarettes by Brands

HK\$ (US\$1 = HK\$7.78)

Brands	Wholesale Price (200 sticks), HK\$	Retail Price (20 sticks), HK\$
Double Happiness	1999	22
Chung Hwa	289	32
Peony	190	21
Salem	280	31
Mild Seven	280	31
YSL	307	34
Winston	226	25
Kent	280	31
S.E. 555	316	35
Dunhill	280	31
Cartier	280	31
Rothman	280	31
Viceroy	226	25
Winfield	196	27
Hilton	199	22
Capstan	190	21
Marlboro	280	31
Philip Morris	226	25
Virginia	280	31

Table 2 C.I.F. Price Table of Cigarettes by Countries in US\$/thousand sticks

	1999	2000
USA	31	44
Switzerland	18	16
Germany	26	23
Netherlands	21	17
Belgium	27	25
UK	13	13
Japan	28	19
China	27	22
Malaysia	11	11
Singapore	27	28
World	22	23

Table 3 Hong Kong Cigarette Imports by Volume, in million sticks

	1999	2000	% change	1999 Market Share	2000 Market Share
UK	6,806	6,178	-9%	30%	28%
Belgium	2,804	4,230	51%	12%	19%
USA	4,704	3,566	-24%	20%	16%
China	2,360	3,156	34%	10%	14%
Malaysia	1,935	2,402	24%	8%	11%
Germany	540	623	16%	2%	3%
Japan	444	542	22%	2%	2%
Singapore	1,291	536	-58%	6%	2%
Netherlands	325	297	-9%	1%	1%
Switzerland	566	160	-72%	2%	1%
World	22,964	22,293	-3%	100%	100%

Table 4 Hong Kong Cigarette Import by value, in USD thousand

	1999	2000	% change	1999 Market Share	2000 Market Share
USA	146,550	157,601	8%	29%	31%
Belgium	76,587	106,606	39%	15%	21%
UK	89,560	81,987	-8%	18%	16%
China	63,129	70,974	12%	12%	14%
Malaysia	21,487	25,823	20%	4%	5%
Singapore	35,238	15,105	-57%	7%	3%
Germany	14,271	14,270	-0%	3%	3%
Japan	12,266	10,070	-18%	2%	2%
Netherlands	6,931	5,044	-27%	1%	1%
Switzerland	10,313	2,542	-75%	2%	1%
World	505,432	507,821	0%	100%	100%

Table 5 Hong Kong's Cigarette Exports by Volume & Value, in million Sticks & US\$ thousand

	1999 mil. sticks	2000 mil. sticks	% change	1999 US\$ '000	2000 US\$'000
Vietnam	6,996	7,570	8%	135,156	115,642
China	5,401	6,488	20%	138,727	165,904
Philippines	4,857	5,120	5%	144,609	149,037
Turkey	0	1,438	449241%	4	7,173
Malaysia	914	706	-23%	14,671	11,079
Taiwan	1,665	665	-60%	55,080	21,588
Macau	643	639	-1%	30,039	28,880
US	104	12	-88%	3301	427
World	25,253	24,948	-1%	641,206	558,491

Souce : Hong Kong Census & Statistics Department

Production

Cigarette production in 2000 jumped 49%, reaching a total of 9.859 billion sticks. The conspicuous increase was due to increased production at Nanyang Brothers, following its move to a new plant in 1999. When the plant operates at full capacity, it will be able to manufacture 14 billion sticks per year, but production in 2000 was around 8.4 billion. Hong Kong Tobacco and Hongta are two other plants in Hong Kong, producing 1.2 billion and 204 million sticks, respectively.

Despite huge production for Nanyang Brothers, less than 1% of its production officially supplies the local market. Most of these cigarettes are exported to Vietnam, the Philippines, Malaysia and China. For the other two plants, about 0.3% of their production were consumed in Hong Kong.

Hong Kong relies on imports for all raw materials for manufacturing cigarettes. Major tobacco leaf supplying countries include the U.S., Zimbabwe, and China. Hong Kong mainly imports flue-cured leaf because the majority of locally produced cigarettes are English Virginia, which are exported to China and South East Asia.

Since the 2000 production has not yet reached Hong Kong's full production capacity, it is possible that production in 2001 will grow. However, production levels will depend on export demand, which account for 99% of local production.

Consumption

Hong Kong people smoked 5.9 billion sticks in 2000. According to a survey conducted in 1998, about 15% of the population who aged 15 or above smoke and each smokes 16 sticks daily on average. The current total population stands at 6.8 million. Hong Kong is not expected to experience drastic changes in smoking levels in the future. On one hand, the Hong Kong government has discouraged smoking by education and banning cigarette advertising. On the other hand, each year at least 55,000 mainland Chinese immigrate to Hong Kong and the smoking rate among these newcomers is very high. These two factors tend to balance each other out and prevent Hong Kong's cigarette consumption from changing drastically.

Hong Kong smokers prefer American-style blended cigarettes. The top 10 most popular cigarette brands are Marlboro, Salem, Hilton, Kent, Viceroy, Winston, Winfield, YSL, Capstan, and Virginia. Since Hong Kong smokers are getting more health conscious, the popularity of cigarettes with lower tar yield is on the rise. According to tests conducted by the government on 89 brands, 39 brands are in the low range of tar yields (below 9 mg), 29 brands in the middle range (between 10 and 14 mg) and only 21 brands in the high range. Average tar and nicotine yields both dropped when compared with the test results in 1999; the former dropped by 0.4 mg and the latter by 0.03 mg.

Trade

In 2000, total official cigarette imports to Hong Kong amounted to 22.293 billion sticks with a total value of \$508 million. The U.S. is the largest supply country in terms of value, but third in terms of volume. With the closure of the British American Tobacco plant in Hong Kong in 1998, that company's production shifted to its plant in Malaysia. Thus, imports from Malaysia increased 100% in 1999 and by another 24% in 2000. Popular American-style brands like Viceroy, Winfield, Hilton, and Capstan are actually produced in Malaysia rather than the United States. About 69% of total imports were re-exported. China, the Philippines and Vietnam were the

three largest re-export markets. Vietnam was the largest export market for locally produced cigarettes.

Import and export figures in the trade matrices are official statistics provided by the Hong Kong Census & Statistics Department. Figures contained in the PS&D table reflect estimated smuggled cigarettes. As Hong Kong imposes duty on cigarettes and is often used as an entrepot for smuggled cigarettes, smuggling of cigarettes in and out of Hong Kong exists. It is estimated that around 32% of cigarettes consumed in Hong Kong last year were smuggled into the territory. Recent investigations of smuggled and counterfeit cigarettes revealed that fake Marlboro and Benson & Hedges cigarettes were manufactured in China and that could have been exported as far away as Europe. Up to 9 million sticks can be smuggled in one shipment, typically loaded into a container declared to contain other products like garments or computer keyboards.

In 2000, the government intercepted 134 million cigarettes at a value of \$23 million with duty potential amounting to \$13 million.

Duties

Hong Kong imposes an excise duty on cigarettes which are sold for consumption in Hong Kong, regardless of whether they are imported or locally manufactured. In the midst of a budget shortfall, the Hong Kong Government raised its duties on cigarettes in March 2001 by 5% from HK\$766 to HK\$804 per 1000 sticks.

In 2000, the Hong Kong government received HK\$2.4 billion (US\$ 313 million) revenue from duties imposed on local and imported cigarettes.

In an attempt to curb cigarette smuggling, the Tobacco Institute of Hong Kong and the Customs and Excise Department have worked together since 1994 on an Informer Reward Scheme for information leading to the seizure of smuggled cigarettes. The current reward scale is as follows:

Quantity of cigarettes	Rate of Reward seized on any one occasion
200,000 to 1,000,000	US\$1,285
1,010,000 to 1,500,000	US\$2,570
1,510,000 to 2,000,000	US\$3,856
2,010,000 to 5,000,000	US\$6,427
5,010,000 and above	US\$12,853

Marketing & Policy

The Hong Kong government's policy is to discourage smoking. A multi-pronged approach has been adopted to control tobacco use. This includes the enactment of the Smoking (Public Health) Ordinance, Cap 371 and its subsequent amendments to restrict smoking, sale and advertising of tobacco products. To encourage the public to comply with the Ordinance and build a smoke-free culture, the Hong Kong government launched a new Tobacco Control Office in February 2001 as part of its anti-smoking measures. The current legislation:

- prohibits smoking on public transport and in cinemas, theaters, concert halls, banks, supermarkets, department stores and shopping malls.
- prohibits tobacco advertisements in printed publications;

- prohibits the displays of tobacco advertisements;
- requires packages of tobacco products to carry health warnings and the quantitative amounts of tar and nicotine yield, if applicable;
- prohibits the sale of cigarettes with a tar content of more than 17 milligrams;
- prohibits the sale of cigarettes through vending machines;
- requires large restaurants to designate at least one-third of total areas as no smoking areas; and stipulates all restaurants to display a sign to indicate whether a no-smoking area is provided in the restaurant premises;
- prohibits the sale of tobacco product to minors under the age of 18 and requires retailers to display a sign to the same effect; and
- prohibits giving of tobacco products to any person for the purpose of promotion.

Despite more restrictions on advertising, tobacco companies still manage to find marketing channels. They continue to actively sponsor many public events, such as Salem and Marlboro tennis tournaments, a Mild Seven music festival, Kent movies, etc.

The current legislation requires only large restaurants to designate non-smoking areas. It is expected that the measure will be strengthened in the future because public opinion seems to believe that the current practice is not strict enough. According to the findings of a public opinion survey with a total of 1078 respondents on the need for protection of diners in eating places in Hong Kong, stronger support for smoke-free restaurants was found in this survey. 94% supported the proposal that half the seats in all restaurants should be designated as non-smoking areas and more than two-thirds (69%) supported all seats being non-smoking areas. Advocates for more stringent measures claimed that the survey reinforces and extends the evidence that public opinion is now solidly behind the calls for more smoke-free restaurants. On the other hand, the tobacco industry and some restaurants argued that more stringent measures will inevitably hamper business. The debate on this issue and the lobbying is expected to continue for some time. However, it is anticipated that the legislation in the area of non-smoking area in restaurants will become more and more stringent in the future. It is just a matter of time.